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URBAN-RURAL INCOME DISPARITY AND ITS SIGNIFICANCE IN CHINA*

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Abstract

Introduction

Concerns for the distribution of income in China are reflected in four aspects: (1) Has the market-oriented reform improved or worsened income distribution since 1978? (2) Has the relationship of income inequality and economic growth shaped an inverted-U curve as it has in many developing countries? (3) What factors have caused the disparity? (4) What are the impacts of income disparity on economic development, social and political stability in China? This paper will discuss the above issues by analyzing urban-rural income distribution in China during the period of 1978–95. Our viewpoints are that, regarding urban-rural residents, China's income distribution improved during the 1978–84 period and worsened between 1985 and 1995. However, the shape of the disparity is not an inverted-U shape, but a U shaped curve. We have also found that the relative low labor productivity in the agricultural sector, the relative slowdown in agricultural growth, the relative low price of farm products, and the unbalanced development of town and village enterprises (TVEs) among regions were the main factors expanding the disparity. We believe that further expansion of the differentials may create some serious social and political problems, generate nationalist conflicts, and negatively influence China's social and economic stability.

This paper consists of three parts: Section I studies whether urban-rural income distribution has worsened since 1978 and how large the disparity is; Section II considers the factors and mechanisms which caused the disparity; Section III studies the impacts of the disparity on economic development, as well as social and political stability.

I. *Urban-Rural Income Differentials and Its Pattern in China*

The income distribution in China can be divided into four categories: income distribution

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of (1) all of China or nationwide, (2)urban household and rural household, (3)regional or inter-regional, and (4) rural and urban residents.

1. Income Distribution of All of China

China began its economic reform in 1978. The process of China's economic reform can be divided into two periods. The first period spans the years of 1978–84 and it is usually referred to as the period of Agricultural Reform because policy preference was given to the agricultural development. The second period is the period of 1985 to now, it is called the Urban Reform period because policy preference was given to urban areas, especially state-owned enterprises and the eastern coastal regions. We will use the above classification, The First Period and The Second Period, to study income distribution in China.

Most studies showed that nationwide income distribution worsened since the start of the reform and became more serious during the period of 1985–95. A study issued by the World Bank in 1983, using data on national income per capita, showed that income distribution worsened and the Gini coefficient was 0.33 in 1980[1]. In 1987, Adelman and Sundings conducted a similar study in which the Gini coefficient of China was calculated at 0.284 in 1983 and it showed that income distribution improved in the period of 1979–83. Using their own large sample survey data on household incomes in 1988 and a western definition of disposable income, A. Rahman, R. Griffin, R.W. Zhao, *et al* conducted a study in 1992. This study showed that urban-rural income distribution improved in the first period of 1978–84, then worsened in the second period of 1985–90, and may worsen in the future. Chen Zongsheng made a series estimation of the Gini coefficient and showed that the Gini coefficient was 0.264, 0.252, 0.271, 0.287, 0.288, 0.294, 0.296 from the period of 1981–88. Therefore, income distribution worsened progressively from 1985. Chen also wrote that the degree of disparity among rural residents was much greater than among urban residents. Regarding urban-rural income distribution, most studies show that the disparity had great influence on the nationwide income inequality[2].

On regional disparity, some studies show that the differentials had widened in the period of 1978–94[3]. However, there are other studies, including the studies by Watanabe, Du Jin, and Wu Junhua in Japan, which found that regional disparity has narrowed since the 1978 reform[4].

2. Income Distribution Between Urban-Rural Residents Since the Reform

There are several studies on urban-rural income distribution. The World Bank published a report in 1983 which found that the urban-rural income ratio, a indicator for measuring urban-rural income disparity, remained nearly constant during the period of 1952–78, and reached 2.2 in 1979. During the reform period, the disparity grew. Though the report used national income per capita for the estimation, it stated that national income per capita was not an adequate measure of the nationwide disparity. Therefore, the World Bank suggested two additional indicators: (1) per capita consumption which reflects the real living standards of rural-urban residents, (2) provincial disparity which reflects the regional factor causing the

[1] World Bank (1989), pp.85–90.
[2] Chen Zongsheng (1983), pp.244.
[3] Zhang Shuguang (1993).
[4] Du Jin (1995), pp.75.

disparity.

Using the method of the Kakwani interpolation and the data of per capita national income for the 1952–83 period, Adelman and Sundings found that urban-rural income distribution worsened during 1952–58 and improved slightly during 1969–77. They also found that the urban-rural income ratios were 3.72 in 1958, 2.91 in 1979, and 1.72 in 1983. Their study showed that throughout the reform, the rural-urban income distribution improved during 1979–83. On the pattern of disparity, they pointed out that the changes in the disparity shaped an inverted-U curve during 1952–83. An interesting point in their study is that the rural-urban income distribution had a significant effect on national income distribution, and that the decrease of the urban-rural income ratio not only induced an equality in urban-rural income disparity, but also contributed to a drop in national income inequality[5].

The study of Khan et al reveals that although the Gini coefficient was only 0.233 for rural residents and 0.338 for urban residents, the nationwide Gini coefficient was 0.382 in 1988. The decile income group data showed that the shares of urban household income and rural household sample numbers were 98.23% and 0.42% respectively, in the highest income decile groups. Conversely, the shares of rural household income and urban household sample numbers were 88.12% and 11.88% respectively, in the lowest income decile groups. There was a large income differential between rural and urban residents. Consequently, the urban-rural income disparity contributed in large part to nationwide income differentials[6].

The Rural Economy and Society Sample Survey Team of the State Statistical Bureau of China (henceforth SSBC) conducted a study in 1994 on urban-rural income differentials. In that study, they compared the income concepts and concluded that although the concept of net income for farmers is similar to the definition of disposable income, the concept of the income of living expenditure for urban residents is incompatible because some important parts of urban income, such as housing subsidies, health care , money in kind, etc., are not included. Hence, they adjusted the urban income by adding an estimation of housing subsidies and money in kind, then calculated the urban-rural disparity at 3.09 in 1980, 2.26 in 1985, and 3.27 in 1993. Their study shows that urban-rural income disparity improved during 1978–85 and worsened during 1986–93. The turning point from a decreasing to a increasing ratio was 1986[7]. H. Kato and H. Sato *et al* conducted similar research in Japan and reached a similar conclusion[8].

3. A Mesurement of the Urban-Rural Income Differentials

Through analysis of the above studies, we concluded that most studies under-estimated the urban-rural disparity due to a problem of data shortage and incompatibility of income definition. Fortunately, SSBC has been conducting large sample surveys on household income since 1985 and has published the data of farmers' net income for rural residents and the income of living expenditures for urban residents since 1991. The definition of income used by SSBC is similar to that for disposable income and the survey method is based on modern statistics. Although there are still some problems, such as the factor that the housing rent and

[5] Adelman, Irma, and Sundings, D. (1987).
[6] A. Rahman, K. Griffin, C. Riskin and R.W. Zhao, (1992).
[7] Rural Household Income Sample Survey Team of State Statistical Bureau (1994).
[8] H. Sato (1995), pp.144–172.

money in kind are underestimated among the income of living expenditures for urban residents, this is the only available series data for disposable income we can use.

In our study, we use three indicators to measure the disparity. The first is urban-rural income ratio, which reflects the income differentials between urban-rural residents. The second is the ratio of urban-rural consumption expenditure, which indicates real life disparity between urban-rural residents. The third is the urban-rural savings ratio which reflects financial asset disparity between urban-rural residents. We use these indicators because urban residents' income is usually under-estimated, as a result, the income of disparity of urban-rural residents appears to be relatively lower than it actually is. This is a difficult problem to solve because of the problems involved in surveying high income urban residents who frequently under-report and miss-report their income due to concerns over taxes and exposing their property. In this case, we have added the indicator of urban-rural consumption expenditure ratio to adjust the lower estimation on urban income. We also use a new indicator, the urban-rural savings ratio for measuring the disparity in order to reduce the under-estimation of urban residents income. We think that it is reasonable to do so because (a) urban residents save their after-consumption income as financial assets although they miss-report or under-report their real income; (b) financial income is becoming a very important part of residents income sources along with a variety of incomes and the current development of financial markets in China. Therefore, financial assets are good indicators reflecting the real income and real income disparity between urban-rural residents.

By using new data and additional indicators, we measured the urban-rural income disparity as shown in Table 1. From Table 1 we can draw the following conclusions:

(1) All three indicators show that the changes in income distribution between urban residents and rural residents in China can be divided into two periods during 1978–95. In the first period, 1978–84, the urban-rural income disparity improved greatly. In the second period, 1985–95, it worsened and it might continue to worsen in the years ahead. The turning point of urban-rural income disparity from improving to worsening was 1985.

(2) By comparing the three indicators, we found that the ratios of urban-rural consumption expenditure and savings, are greater than the income ratio. This means that the income of urban residents and, the real urban-rural disparity were under-estimated by the income indicator of State Statistical Bureau of China. Therefore, it is necessary to add the ratios of urban-rural consumption expenditure and savings to reduce the errors caused by the income data.

(3)The income disparity has continued to widen in recent years. We see from Table 1 that the income ratio increased from 1.7 in 1984 to 2.6 in 1994, and decreased to 2.5 in 1995, the consumption expenditure ratio increased from 2.2 in 1984 to 3.6 in 1994 and decreased to 3.5 in 1995. There was a slight improvement from the period of 1994-95. However, the factor that the savings ratio has increased from 1.8 in 1984 to 3.6 in 1994, and 3.8 in 1995, showed that urban-rural income distribution had had no improvement since 1984.

4. The Changing Pattern in Urban-Rural Income Inequality and Economic Growth

There are two kinds of patterns in income inequality and economic growth. One is the inverted-U curve or Kuznets hypotheses as proved by Adelman, Morris et al. Another is the East Asian Model that refers to the special experiences of Japan and the NIEs. The previous pattern reflects that inequality will expand in the earlier period of industrialization and then

TABLE 1. URBAN-RURAL REAL INCOME DIFFERENTIALS BY THREE INDICATORS

Chinese Yuan in Real Price

Year	Urban-Rural Real Income & Income Ratio			Urban-Rural Consumption Ratio			Urban-Rural Savings Ratio		
	Rural Income	Urban Income	Income Ratio	Rural Consumption	Urban Consumption	Consumption Ratio	Rural Savings	Urban Savings	Savings Ratio
1978	134	314	2.3	132	380	2.9	56	155	2.8
1979	160	373	2.3	152	398	2.6	78	203	2.6
1980	191	408	2.1	173	435	2.5	117	283	2.4
1981	223	447	2.0	192	507	2.6	170	354	2.1
1982	270	484	1.8	210	516	2.5	228	447	2.0
1983	310	516	1.7	232	536	2.3	320	573	1.8
1984	355	591	1.7	265	582	2.2	438	777	1.8
1985	370	612	1.7	322	717	2.2	565	1,058	1.9
1986	400	774	1.9	354	860	2.4	766	1,472	1.9
1987	436	842	1.9	393	1,001	2.5	1,006	2,027	2.0
1988	464	927	2.0	432	1,186	2.7	1,142	2,659	2.3
1989	505	1,084	2.1	464	1,348	2.9	1,412	3,735	2.6
1990	656	1,369	2.1	546	1,664	3.0	1,842	5,293	2.9
1991	693	1,469	2.1	607	1,832	3.0	2,319	6,791	2.9
1992	749	1,681	2.2	686	2,169	3.2	2,867	8,678	3.0
1993	811	2,013	2.5	752	2,607	3.5	3,576	11,627	3.3
1994	989	2,543	2.6	922	3,183	3.5	4,816	16,703	3.5
1995	1,343	3,333	2.5	1,259	4,318	3.4	6,196	23,467	3.8

Note: The data of consumption for the period of 1978–86 are from *Statistical Year Book of China* 1994, the data of 1987–95 are from *Statistical Yearbook of China* 1996.

gradually be reduced by the trickle-down effect. This implies that the market will fine tune economic development so that there is no room for government intervention. It seems to be a valid albeit painful experience in many developed countries. The latter model, the East Asian Model, maintains that income equality can accompany high economic growth. Therefore, it might be unnecessary for all countries to follow the Kuznets hypothesis.

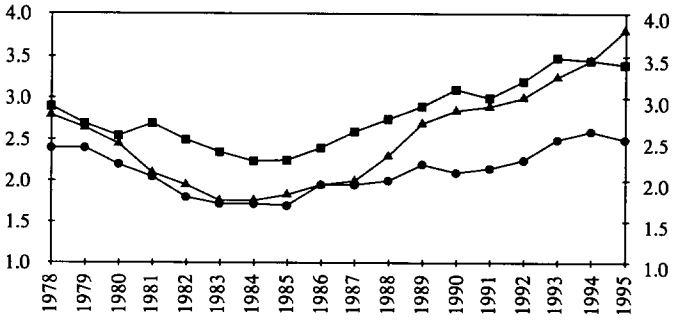
We assume that China has not followed the inverted-U curve. We are interested in seeing whether China's market-oriented reform is following market mechanisms in improving efficiency while producing inequality in income distribution, or whether it is following the socialist principle of creating egalitarianism.

The pattern of income inequality and economic growth of all of China, according to Adelman and Sundings, was shaped as an inverted-U curve during the 1952–1978 period, with the same pattern appearing in the urban-rural income inequality data during 1952–83. Although their paper hints that urban-rural income inequality might worsen and create another inverted-U curve due to adjustments in development strategy after 1984, their conclusion clearly states that urban-rural income disparity was reduced since the start of reform from 1978, and the changing patterns of inequality and economic growth were nearly the same as in other less-developed nations.

Our conclusion differs from that of Adelman and Sundings. We found that disparity widened after 1985 and the shape was not an inverted-U curve, but a U-shaped curve during 1978–95. (See Figure 1) Obviously, China's pattern was effected by policy changes or institutional reforms according to the division of the two periods of reform.

In this regard, we believe that the conclusion of Adelman et al were correct for the 1978

FIGURE 1. CHANGING PATTERN IN URBAN-RURAL INCOME DISTRIBUTION



–83 period, however, they may not be applicable after that period. Our study shows that there was a major change in urban-rural income disparity after 1984, which compels us to revise Adelman's conclusion.

II. *Factors and Mechanism Causing Urban-Rural Income Inequality*

There are many factors influencing the disparity between urban and rural sectors. The report of the World Bank states that the high income per capita of urban workers, especially the subsidies and the welfare system, explained most of the differentials. Restrictions on migration from rural to urban areas was another factor. Therefore, the urban-rural income differences were a result of the dual economic system. Adelman and Sundings stressed that the reduction of the disparity during 1978–83 was due to policy changes or agricultural reform. It is clear that the differentials can be explained by changes in government strategy, policy, and development priority. The SSBC study showed that the main factors inducing the disparity were the dual economic structure, the relative low price of farm products, and the growing of hidden income of urban residents. They pointed out that these variables can explain 83.27% of the disparity.

In our study, we found that the following factors were crucial in inducing urban-rural differentials:

1. The Relative Low Price of Farm Products and The Relative Slow Growth in Agricultural in the Second Period of Reform

We compared of the two periods to find the factors that caused the disparity. Table 1 shows that during the first period, the real net income of farmers increased greatly, and then slowed down during the second period. The rapid increase of farmers' income in the first period was mainly due to a large rise in farm products prices applied by the government. Table 2 shows that the ratio of the price indices of industrial products over the price indices of farm products was 70.8 in 1984, 56.3 in 1988, and 54.4 in 1994, taking 1978 as 100. The relative prices of industrial products declined nearly 50%, while the terms of trade of farm products improved nearly 50% during the first period. Farmers' net income increased at 13.6%, accompanied by a 7.4% rise in the price of farm products between 1978 and 1984. This means

TABLE 2. PRICE CHANGES OF FARM PRODUCTS AND INDUSTRIAL PRODUCTS

Items	1978–84	1985–89	1985–92	1989–92
(1) Annual growth rates of farm product prices	7.4%	14%	7.5%	−0.4%
(2) Annual growth rates of industrial product prices	1.3%	11.5%	7.4%	2.0%
(3) Differences in price indices (Rural-Urban) (1)-(2)	6.1%	2.5%	0.1%	−2.4%
(4) Growth rate of farmers' net income	13.6%(1980–1985)	2.3%	3.3%	4.7%

Source: *Statistical Yearbook of China 1993, 1994, 1995.*

TABLE 3. SECTORAL GROWTH RATES BY PERIODS

Sector/Periods	1978–1984	1984–1988	1988–1991	1991–1994	1978–1994
GDP	9.2	11.8	5.9	14.5	10.2
Agriculture	7.3	3.1	4.2	4.5	5.1
Industries	8.9	14.2	6.7	19.9	11.8
Services	11.9	14.5	5.7	9.8	10.9

Source: *Statistical Yearbook of China, 1995.*

that the rise in the price of farm products was the main reason for the increase in rural net income. However, it is important to note that the increase of farmers' net income was based on conditions in which there was a delay in urban reform and a relatively slow rise in urban wages during 1978–84.

The above picture has changed since the start of urban reform in 1984. Table 2 shows that the rise in industrial product prices was much slower than that of farm products, 1.3% for industrial products but 7.4% for farm products during 1978–84. However, in the period of 1985–92, the price rise of farm products was −0.4% while the price rise of industrial products was 2%. The relative slowdown of farm product prices produced a negative effect on rural net income. For example, the prices of farm products rose at a 7.5% annual growth rate, farmers' net income only achieved a 3.3% annual growth rate due to a relative high rise in industrial product prices during the period of 1985–92. Therefore, the worsening of the relative terms of trade for farm products is one important reason for explaining the expansion of urban-rural inequality during the period 1985–94.

The price changes of farm products, or the agricultural policies, have a direct effect on the growth of the agricultural sector. During the first period of reform, the agricultural sector grew faster than the industrial sector because of policy favoring the agricultural sector. However, since the start of urban reform, policy preference has shifted toward the industrial sector, especially state-owned enterprises (SOEs). Meanwhile, TVEs have developed rapidly since 1984. Institutional stimulation of agriculture has declined and relative advantage has shifted to the industrial sector, including TVEs.

Table 3 compares the growth rates of the sectors of agriculture, industry, and service. It shows that the agricultural sector had had a 7.3% annual growth rate, much higher than that

of other sectors during the first period. However, since 1984, the average annual growth rate of agriculture declined to 3.1%, much lower than that of the sectors of industry (14.2%) and service (14.5%). In conjunction with the relative low growth in agriculture, the growth rate of farmers' income also has slowed since 1984.

2. The Rapid Rise in Urban Workers' Wages

Due to concerns over high inflation and increasing deficits, the government provided subsidies to urban residents rather than raising urban wages and the prices of industrial products during the first period of 1978–84. This policy can explain partly why there was a relatively rapid increase in the net income of farmers during this period. With the start of urban reform, urban workers' wages rose in two ways. First, the government gave more decision rights to enterprises, as a result, firms raised the prices of industrial products in order to catch up to the rising industrial costs caused by rising farm products prices. This, in return, raised the costs for farmers, and reduced the relative income of farmers. Second, under varying systems of contract and lease, enterprises had been given more rights on decision of their own wage levels. As a result, urban workers' wages and income increased very quickly during 1985–92. Meanwhile, the government sharply increased subsidies for urban residents to fill up the large gap of inflation and real income. According to some studies, in 1990, the main sources of rising urban incomes were money in kind, second job income, coupons, housing subsidies, and the subsidies of health care, child care and education, etc. One calculation showed that this portion of income was as large as 40–50% of total urban income (Zhao, 1992); the Chinese urban wage system could be considered a system of 50% money wages and 50% money in kind.

3. The Weakeneing of the Capacity of TVEs to Absorb Surplus Labor

By analyzing the content of rural income, it becomes clear that the income from the sale of farm products still represents the main part of farmers' total income. However, farmers' income from non-farming activities has rapidly increased because of the liberalization of agricultural activity, especially the rapid growth of TVEs and non-farming activities since 1985. Non-farming income creates two effects on income disparity. It increases inequality among farmers by generating new richers; and on the other hand, it decreases urban-rural disparity by increasing the average relative income of all farmers. Zhu Ling found that non-farming income took a 22.5% share of farmers' total income, and accounted for 36% of the inequality among farm households in 1988 (Zhou, 1992). SSBC found that the share of non-farming income grew from 7% in 1978 to 28% in farmers' total income in 1993, about two times large than that in 1978 (SSBC, 1994). Since most non-farming income came from workers' wages in TVEs, the rapid development of TVEs accelerated urbanization in rural areas and created working opportunities for surplus labor. This means that non-farming income not only increased farmers' net income, but it also had a positive impact on reducing urban-rural income inequality. Conversely a reduction of rural industrial workers in TVEs is equivalent to a reduction of farmers' net income.

The role of TVEs in improving farmers' income weakened relatively during the 1985–94 period. Data shows that capital investment in TVEs rose very quickly, leading to a dramatic improvement of TVEs productivity from 1984 to 1989. This means that the development process of TVEs shifted from labor intensive to capital intensive gradually. This shift induced

a weakening in the absorption capability of rural surplus labor in TVEs. According to the Statistical Yearbook of TVEs of 1995, the annual growth rate for total nominal output of TVEs it was 30.1%, for fixed capital investment it was 23.7%, and for employment in TVEs it was 5.2% during the 1981–93 period. During the latter period of 1986–93, the previews two rates increased to 33.6% and 27.3% while the employment growth rate decreased to 2.6%. From 1978 to 1984, 150 million farm laborers were absorbed in TVEs and 12.6 million surplus laborers were absorbed by TVEs every year from 1984 to 1988. Subsequently, however, the number fell to only 2.5 million during the period of 1989–92, and especially, the growth rate of workers in TVEs fell to a negative level in 1989 and 1990. After a slight rise, a negative growth rate also resulted in 1994.

4. The Expansion of the Relative Productivity Differntials Between the Urban Sector and the Rural Sector

China today, as A. Lewis described to less-developed countries, has a dual economic system in which the whole economy is divided into two sectors: urban and rural. Regarding income distribution, this dual economy is reflected in such factors as relative productivity, the ratio of urban labor productivity over rural labor productivity et.. Here, we just analyze certain factors.

(1) Wage. Wage accounts for a main part in workers' income in the urban sector and it has a direct effect on relative productivity. Data showed that the wages of SOEs workers increased 2.2 times while the net income of farmers increased 3.0 times during the period of 1978–84. However, the growth of SOEs wages rose by 4.6 times while the net income of farmers rose only by 3.1 times during the second period (SSBC, 1995). The relative high growth of wages, plus money in kind, subsidies, income from secondary jobs, pensions and health care, housing subsidies for urban residents, are some factors explaining why the relative labor productivity of agriculture went down after 1985.

(2) Labor flows. Theoretically, labor in the lower wage sectors will move to the higher wage sectors in order to benefit from higher wages. Then, there will be an equalization in wage rates and labor productivity in the two sectors. However, China has not followed the principles because China has practiced a policy restricting labor flows and migration from rural areas to urban areas to control urban population and alleviate the food problem since 1958. Therefore, despite the sizable income differential between the two sectors, large scale migration did not occur until recently. However, although surplus labarers are allowed to flow among regions and some limited cities, it is still an restriction on migration from rural area to urban area through the registration system and employment policy. Thus, most rural surplus laborers could not enter SOEs or collective enterprises in the cities. Therefore, they turned for work to TVEs and to informal sectors in cities. This system of separation is a very important factor explaining the relatively high productivity in the urban sector. It is also a crucial factor explaining why China's urban-rural income disparity is larger than that of other developing countries, including India, Brazil, and Mexico. (See Table 5 in Section Ⅲ)

5. A Decline of Government Investment in Agriculture

Government investment, especially fixed capital investment, is another factor influencing relative productivity. For many years, China pursued industrialization by giving industry the priority of investment. This strategy did not change until the start of reform in 1978. However,

although policy was orientated towards agriculture from 1978, an unbalanced growth occurred again from 1984 because priority was given to coastal and urban areas. Data shows that government investment in farms experienced a high growth rate of 11.3% in 1978, 12.1% in 1979, 11.6% in 1980, but it went down to 6.9% in 1984, 6.5% in 1985[9]. This policy change positively affected urban productivity, but it had an negative effect on rural relative productivity.

6. The Unbalance of TVEs Development Among Regions[10]

We use the data of all China and the three regions to study the changes of some relative variables and their effect on urban-rural income distribution. Here, *Dur* represents urban-rural income disparity indicated as a ratio of per capita income of living expenditure for urban residents over per capita net income for farmers; *LRP* represents relative labor productivity which is the ratio of labor productivity of urban sector over labor productivity of rural sector (U/R). *TVEs*, the ratio of value-added of the TVEs over value-added of rural sector, represents the development of TVEs. *BD* is the dependency ratio, a ratio of urban dependency rate (ratio of urban population over urban labor) over rural dependency rates (ratio of rural population over rural labor). Table 4 is the result of the comparison, it shows that the

TABLE 4. THE URBAN-RURAL INCOME DISPARITY AND CHANGES OF RELATIVE VARIABLES

		1978	1984	1994	(1994)−(1984)
DUR (Disparity of Urban-Rural Income)	All China	**2.67**	**1.59**	**2.58**	**0.99**
	The East	2.70	1.35	2.14	**0.79**
	The Center	2.88	1.48	2.49	**1.01**
	The West	2.69	1.96	3.17	**1.21**
TVEs (Relative Productivity of TVEs)	All China		0.13	0.25	**0.12**
	The East		0.25	0.43	**0.18**
	The Center		0.09	0.21	**0.12**
	The West		0.04	0.08	**0.04**
LRP (Urban-Rural Disparity of Productivity)	All China		3.80	4.09	**0.29**
	The East		3.69	3.28	**−0.41**
	The Center		3.32	3.60	**0.28**
	The West		4.40	5.48	**1.08**
BD (Ratio of Dependency)	All China		0.66	0.79	**0.13**
	The East		0.71	0.72	**0.01**
	The Center		0.63	0.79	**0.16**
	The West		0.63	0.86	**0.23**

[9] *Statistical Yearbook of China 1995*; *Agricultural Development Report 1995*.

[10] China divided its provinces into three regions, the East, the Center and the West. The East or the so called Coastal area includes Beijing, Shanghai, Tianjin, Guangdong, Fujian, Liaoning, Zhejiang, Jiangsu, Shandong, Hainan and Hebei; The center includes Hubei, Hunan, Henan, Jiangxi, Heilongjiang, Jilin, Neimonggu (inner Mongolia), Anhui and Shanxi. The West includes Shannxi, Gansu, Ningxia, Guizhuo, Xinjiang, Yunnan, Qinghai, Sichuan and Xizang. However, Xizang (Tibet) is excluded in our comparison studies for the lack of data; Hainan is combined into Guangdong province because it had been a city of Guangdong and had become a new province since 1993. Therefore, there was no independent data for Hainan before 1993.

urban-rural income disparity, indicated as the ratio of urban-rural income, declined in the first period of 1978–84, then widened in the second period of 1985–94 during the three time points, 1978, 1984 and 1994. In comparing 1984 with 1994, we see the disparity is widened 0.99 times. The changing order of the disparity widening is from the East region to the Center region, and then to the West region.

From the period of 1984–94, the TVEs ratio for all of China rose 12 points. The development order of TVEs was from the East to the Center and then to the West. We see that there were differentials in the development of TVEs between the East and the West, however, the differentials were munch larger between the Center and the West in 1984. In 1994, although there were still differentials of TVEs development in the three regions, TVEs developed in the East while there was a relative slowdown in the West. Considering the change of income disparity among regions, we believe the development of TVEs affects urban-rural income distribution. Regarding the coefficient of the disparity of relative productivity, it has widened for all of China, reduced in the East, a slightly widened in the Center and greatly widened in the West. This means that the disparity of relative productivity has a large effect on worsening urban-rural income distribution. The ratio of dependency, has seen a 13 point reduction. This shows that the dependency burden for rural residents has greatly declined due to the successful policy of population control in rural areas during the period of 1984–94. There is no doubt that the decline of the dependency ratio has a positive effect on reducing urban-rural income disparity.

III. *The Impacts of Urban-Rural Income Inequality on Economic Development, Society, and Politics*

The inequality of income disparity has many implications for a nation's economic development, social and political stability. The experience of Japan shows that urban-rural income inequality during the prewar period was one of the main factors causing its social and political instability. Equalization became a necessary condition for Japan's achieving rapid economic growth after World War II. Japan now is the richest economy in the world in per capita income terms and its income distribution is one of the most equal nation among developed countries. The Asian NIEs have also achieved high economic growth with quite an equal income distribution. Both Japan and the NIEs did not follow the painful inverted-U curve. We think that the experiences of Japan and the East Asian economies are inspiving to other developing countries, including China.

Some countries such as Brazil and Mexico have not been as lucky as Japan and the Asian NIEs. Data from the World Bank shows that income distribution in these two countries has been the worst in the world for many years even though their per capita income has been classified as middle or upper-middle income economies. In Asia, there are also some less-developed countries with quite unequal income distribution such as the Philippines, India, and Bangladesh.

According to most western views, China, as a socialist country, should be an economy with low income and with an egalitarian income distribution. This image is true by the measure of the national Gini Coefficient only for the period of 1949-78. However, on the aspect of urban-rural income disparity, it may be false. Adelman and Sundings found that the highest

TABLE 5. AN INTERNATIONAL COMPARISON OF URBAN-RURAL INCOME INEQUALITY

Countries	The Urban-Rural Income Ratios
China, 1995	2.5
India, 1973–74	1.4
Philippines	2.1
Bangladesh	1.5
Thailand, 1975–76	2.2
Brazil, 1976	2.3
Korea, 1994	1.0
Russia, 1994	1.2
Colombia, 1970	2.3

Source: *SSYC 1995, Zhao and Griffin, Household Income Distribution in China, Chinese edition, pp.194, Beijing, 1994. Statistical Yearbook of Russia, 1955. Statistical Yearbook of Korea, R., 1995.*

point of urban-rural inequality was 3.7 in 1959. Our study shows that urban-rural inequality in China occurred very early and is very serious as compared to other developing countries. For example, the urban-rural income ratio was 2.2 in 1979 and 2.6 in 1994 while the ratios of other developing countries is approximately 2 times. Table 5 shows that urban-rural income disparity in China is very high, and may be one of the highest in less-developed nations, for it exceeded not only some Asian developing economies but some Latin American countries as well[11].

Income inequality is a result of unbalanced growth of economy and socify, and thus, it reacts to economic development. As evidence in other countries, income inequality also can cause social and political instability. China experienced this during the 1930's and 1940's. The urban-rural income inequality, though not the main reason, was one of the reasons for the farmers' rebellion, the civil war, and the revolution. The communist party of China (CPC) won the civil war and the Kuomintang (KMT) lost. A crucial factor in winning the war was that the CPC started its revolution from the countryside and gained the support of the farmers who were suffering from serious poverty and had strong feelings against the KMT government. From reading modern history of China, we know that the poverty and anti-government feelings came partially as a result of serious urban-rural income inequality.

The CPC has provided many benefits to farmers since the liberation of China in 1949, through land reform, income redistribution and the development of agriculture as a priority. However, this has not induced sustained growth of farmers' income for approximately thirty years. Under the program for industrialization and Mao's idealized concept of catching up with advanced countries, agricultural development was delayed resulting in serious economic problems and famine during 1959–61. There was also a economic corruption during the cultural revolution. Farmers gradually lost their benefits and suffered from poverty and starvation. Therefore, the CCP had to implement economic reform in the agricultural sector

[11] The Urban-rural income ratio may not be a suitable indicator to compare the urban-rural income differentials among countries for the differences in definition of urban (city) and rural. In China, urban (city) population is not defined as the entire population living in a city but only the population living and registered by local administration, Jiuweihui or Jiedaobanshichu, a management organization for urban residents.

again by introducing the family production responsibility system and raising the prices of farm products in order to solve poverty and provide benefits for farmers. However, with the start of urban reform, farmers gradually lost their benefits and suffered from low incomes again. Farmers' dissatisfaction has grown widely due to the spread of income disparity and for other reasons.

The urban-rural inequality is more serious in the western region of China where most Chinese minorities live. The economy is underdeveloped in this area. This has made the region an unstable area both in economic development and political terms. Because of the problems of income disparity and certain minorities issues, many worry about the prospect of minorities in the area wanting independence or separation from the central government. We do not believe it is possible for minorities in the West to separate from China, but we do believe that the area may see serious conflict with the central government which could affect China's future economic development and China's social and political stability.

Another problem connected with urban-rural income inequality and regional disparity, is the flow of surplus labor, or the so called "floating population"[12]. The floating population is a product of the promotion of farm productivity and the urban-rural income disparity. Chinese farmers were restricted from moving to the cities and towns for over thirty years. In recent years, the Chinese government has gradually relaxed its control on the flow of rural population from region to region and allowed limited mobility from the farming sector to small towns where TVEs are located, or to some areas where labor is short, such as the eastern and coastal cities. However, the size of the floating population has grown larger and larger and seems to be out of order since 1992, the new economic boom year after 1989. The main reasons for the floating population are the relative decline in the surplus labor absorption capability of TVEs and more significantly, the widening income inequality between urban and rural areas, and region to region. Indeed, surplus labor and the floating population contributed greatly to urban economic reform and development, especially in the eastern and coastal area. However, increases in the floating population are connected with some problems in cities, such as an increase in crime, traffic jam, tense relations between the floating population and local urban residents, etc. In order to control the urban population and maintain social order in urban areas, the government took certain steps to limit the flow of farm laborers into large cities. More significantly, some provinces have taken measures to close the resident villages where floating population, or farmer laborers live. This has generated complaints and created a bias among farm laborers against urban residents and the government. The floating population is larger than ever before and the confrontations between rural residents and urban residents, farmers and government are likely to become widespread if urban-rural inequality widens.

Some scholars believe that China is following an inverted-U curve. They think China is now in the first part of the curve and may enter the second part of the curve in the decades that follow, then, forming a whole inverted-U curve. According to their analysis, China may not need to take special measures to control the disparity because it will be gradually reduced. However, our study shows that the disparity is large enough to harm economic growth and

[12] We use the term of floating population rather than migration for the living and working palaces of farm laborers, mostly surplus laborers who come from rural area and work temporarily in urban areas, are not fixed but changeable. This is because there are still some restrictions on free flow of labor and migration from rural to urban rears. Therefore, farm laborers can hardly have an urban resident registration and live in city for a long time. In this case, they have to change job and living palace frequently.

influence social stability. Therefore, China should take certain measures as soon as possible. We suggest speeding up the development of market mechanisms so as to allow the market to fine-tune the disparity. However, since the disparity is caused mainly by the policy orientation of the government, and the policy transformation is correlated with urban-rural disparity, the government is responsible for widening or reducing the disparity. On the other hand, the experiences of Japan and the NIEs show that institutional reform and government intervention are efficient in reducing income disparity during the period of high-speed economic growth. Learning from the experiences of Japan and the NIEs, China will be able to develop its economy and realize equalization in income distribution both through market mechanism and government policy.

Based on the above study, we make the following policy recommendations: (1) give priority to agricultural development again, including increasing government investment in farms and providing new incentives for farmers. (2) further develop TVEs, especially in poorer areas so as to reduce the differentials in TVEs development among regions. (3) loosen restrictions on migration of farm labor from region to region and from rural area to urban areas. We believe this point is very important because of differences in relative labor productivity. We mean that main factor causing urban-rural inequality and the productivity differentials, were mainly due to the restrictions on the free flow of laborers between sectors. We suggest that China gradually release the interregional restrictions on migration and allow rural labor to enter urban areas by gradually canceling the urban resident registration system through previews experiments and steps. (4) Pay more attention to income disparity and give development priority to the Central and the Western regions so as to achieve a relative balanced development among regions.

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